

THE WHITE HOUSE  
WASHINGTON

Executive Registry

82-1162

## CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 4/23/82 NUMBER: 068911CA DUE BY: -----SUBJECT: CABINET COUNCIL ON FOOD AND AGRICULTURE -- April 26 Meeting

	ACTION	FYI	ACTION	FYI
<b>ALL CABINET MEMBERS</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## REMARKS:

The Cabinet Council on Food and Agriculture will meet with the President on Monday, April 26, at 2:00 PM in the Cabinet Room. The agenda and papers are attached.

NOTE: ATTENDANCE AT MONDAY'S CCFA MEETING WILL BE LIMITED TO PRINCIPALS ONLY.

NSC review completed.

RETURN TO:  Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs  
456-2823

Becky Norton Dunlop  
Director, Office of  
Cabinet Affairs  
456-2800

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THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON FOOD AND AGRICULTURE

April 26, 1982

2:00 P.M.

CABINET ROOM

AGENDA

Proposed Package of Measures to Improve Dairy Surplus Situation CM/213

THE WHITE HOUSE  
WASHINGTON

April 23, 1982

TO: CABINET COUNCIL ON FOOD AND AGRICULTURE  
FROM: JOHN R. BLOCK, CHAIRMAN PRO TEMPORE  
RE: Cabinet Council Meeting Monday, April 26

Attached are proposals on the dairy surplus situation prepared by the Agriculture Department pursuant to the Cabinet Council meeting of April 21.

EMERGENCY DAIRY ADJUSTMENT ACT OF 1982

## I. PRODUCTION ADJUSTMENTS

Under current legislation, it is estimated that during FY 83-85 net outlays of the Commodity Credit Corporation (CCC) could reach nearly \$4 billion for the dairy price support program using the mandated minimum support levels contained in the 1981 Farm Bill and assuming a steady improvement in commercial use. By 1985, the CCC uncommitted inventory of butter, cheese and nonfat dry milk (NFDM) is projected to be 30 billion pounds of milk equivalent, representing nearly one-fourth of the annual production.

A. Discretionary Authority for Setting Support Level

The proposed legislation would amend the dairy provisions of the 1981 Farm Bill to give the Secretary of Agriculture the discretionary authority in setting the support level. Upon enactment of the proposed legislation, it is the Secretary's intention to drop the minimum support level from \$13.10/cwt. to \$12.00. Current estimates are that with a \$12.00 support level becoming effective October 1, 1982, FY 83-85 CCC net outlays could be held to around \$1.7 billion. This action would limit CCC inventories to around 18 billion pounds milk equivalent, about equal to 1982 levels. If a cutback in milk production is not realized, at this time the Secretary's intention would be to review the situation semi-annually and reduce the milk price support level by 50 cents per cwt. every 6 months until supply comes back into line with demand.

By amending the current legislation, CCC budget outlays during FY 83-85 could be reduced by nearly \$2.3 billion and growth in the currently excessive CCC uncommitted inventories could be stopped. More importantly,

the Secretary would be given the discretionary authority to raise or lower the dairy price support level to ensure a wholesome and abundant supply of dairy products without excessive costs and stock buildup.

Complete authority to adjust the price support level is essential to maintain a viable milk price support program and to avoid further situations like the current one.

A rigid formula mandating price increases without regard to supply and demand factors is the primary reason we are in the present situation which is intolerable. Actions were taken last year to help solve the problem--but they were not enough. Unless complete flexibility is given to the Secretary of Agriculture to set the milk price support level and get the situation under control, the consequences could very well be the demise of the dairy program as we know it.

B. Revised Guidelines for FmHA Loans to Dairy Producers

The Secretary has ordered the Farmers Home Administration to establish new guidelines to be used by loan-making officials when making loans to dairy producers. The guidelines would have the effect of limiting dairy loans to stabilizing ongoing enterprises or providing for within family transfers. New dairy facilities will only be financed by FmHA upon the determination that additional production is needed in that specific area.

II. INCREASE THE DISPOSITION OF SURPLUS DAIRY PRODUCTS

Even with the much needed legislative change outlined above, the CCC will be facing a major stock disposition problem. Reducing the price support level is a step in the right direction; however, even with this proposed reduction in the support level, the CCC will have over 18 billion

pounds of milk equivalent in inventory by October 1, 1982. In an effort to reduce these excessive stocks, a number of measures are proposed which will expand dairy product usage both here and abroad. With these stocks of butter, nonfat dry milk, and cheese going out of condition within 1-2 years, actions must be taken to dispose of these dairy products which cost about \$25 million a year to store. Most of these measures can be handled administratively using existing legislative authorities.

A. Domestic Disposition

1. Expansion of Cheese Distribution

Current government-held inventories of cheese total over 616 million pounds. In December, President Reagan announced that 30 million pounds of cheese would be made available for distribution to low-income households. Later, due to the success in distributing the initial allotment, another 70 million pounds were authorized to be distributed through July 1. As of early April, 76 million pounds of cheese had been ordered, and 32 million pounds had been distributed. All states are participating in the program. The Department now intends to further expand this program and will authorize another 120 million pounds to be made available through the end of this year--bringing to a total 220 million pounds of cheese for donation. This appears to be the maximum amount of cheese that can be physically distributed safely in the 12-month period.

2. Planned Distribution of Surplus Butter

The Department has been pilot testing the distribution of surplus butter in Iowa. The 60-day test began in February and has thus far distributed 70,373 pounds of butter to over 13,792

low-income households. The Department will expand the pilot project, allowing for an additional 70,000 pounds of butter to be distributed. In addition, a final evaluation of the pilot test will result in the development of specific criteria, permitting the expansion of surplus butter distribution nationwide. Unique problems exist for the distribution of surplus butter, which is currently inventoried in 68 pound frozen blocks. The Department is currently addressing the distribution and packaging problems experienced in the pilot project and hopes to fully implement a nationwide program within the next few months.

**3. Distribution Systems Technical Assistance**

The need for effective and efficient commodity distribution systems has been highlighted by the recent surplus cheese distribution program. Some states and local governments were unprepared to effectively manage the distribution of cheese, particularly the transportation and safe warehousing. The Department will make available up to \$100,000 to provide technical assistance to states on methods to improve their distribution systems.

**4. Expansion of Food Bank Demonstration Projects**

As an alternative to current distribution mechanisms, the Department has funded three demonstration projects in Indiana, Pennsylvania, and California. In addition to cheese, these projects have been designed to distribute butter and nonfat dry milk. Particular storage and distribution problems have occurred for butter and, therefore, food banks have been viewed as a possible alternative for distributing these non-cheese items. The three sites now participating in the demonstration project will be expanded to seven. These additional projects will be authorized to participate

for a two-year period, and an estimated 3.0 million pounds of dairy stocks will be distributed over this period.

5. Private Sector Inventory (PSI) System

A number of surplus agricultural commodities are not easily distributed in their current inventory state. The Department proposes to move ahead on a program that will increase the use of surplus commodities by permitting private sector processors to indirectly distribute surplus dairy products. The Private Sector Inventory system would release surplus commodities to food processors who would use the commodities to produce end-products sold at a discount to eligible institutions such as schools, programs for charitable institutions, and nutrition programs for the elderly. The discount would be based on the market value equivalent of the surplus commodity used to produce the final product.

6. Increase CCC Sales of Out of Condition Nonfat Dry Milk for Animal Feed

CCC has been selling out of condition nonfat dry milk (NFDM) for animal feed at about 55-58 cents per pound at an annual rate of about 50 million pounds. By reducing the resale price to around 45 cents, sales could reach an estimated 150 million pounds without major impact on the prices of other high protein feed ingredients.

7. Recommend Higher Standards for Fluid Milk

The Secretary will establish a group to work with the Food and Drug Administration in evaluating the possibility of changing the national fluid milk standards similar to those currently used in California. The Secretary will also encourage state regulatory

agencies to voluntarily raise state standards to help reduce the surplus CCC dairy products. By requiring the higher standards, large quantities of nonfat dry milk and other products now going into CCC surplus stocks would be used commercially. The higher standards will provide consumers with a product that is highly nutritious, high in protein, and has a better taste than the milk they are used to drinking.

It is estimated that the higher standards would reduce CCC purchases by the equivalent of 100 million pounds of butter and 140 million pounds of nonfat dry milk on an annual basis--reducing CCC expenditures by about \$300 million per year.

8. Increase Use of Dairy Products by the Military

The Secretary of Agriculture will work with the Department of Defense to utilize additional amounts of dairy products which are donated by the Department of Agriculture.

B. International Disposition

1. Distribution under the Public Law 480 Food Aid Program

Currently the Title II donations program authorized by P.L. 480 is distributing CCC-owned nonfat dry milk to needy people in poor countries in all parts of the world. We are reviewing ways to increase these humanitarian distributions. The feeding activities benefitting from the Title II program use nonfat dry milk both as milk and as a component of highly nutritious foods such as corn-soy-milk. The Department is increasing the milk component in instant corn-soy-milk as well as considering its addition to other blended foods, primarily wheat-soy blend. At present, slightly over 100,000 tons of CCC-owned NFDM milk is used in the

Title II program. Next year, with the ability provided by the 1981 Farm Bill to reduce the cost of CCC-owned milk to the Title II program, we plan on expanding this use through both private voluntary agencies such as CARE, the Catholic Relief Services and the World Food Program.

Also, although bilateral government-to-government programs under Title II are small, we will review the possible use of nonfat dry milk in such activities. Public Law 480 also authorizes a concessional sales program under Title I. At present, nonfat dry milk is not included in such bilateral government-to-government sales agreements; however, such inclusion is under consideration.

2. Donation by the Commodity Credit Corporation

The Department is proposing to Congress the reinstatement of Section 416 authority whereby the Commodity Credit Corporation will be able to donate dairy products for use overseas. This authority would provide for direct CCC donations in addition to the P.L. 480 program, and would facilitate constructive use by CCC of its surpluses while allowing the United States to enhance its role in responding to food needs of hungry people around the world. These donations would be channeled primarily through private relief agencies such as CARE, the Church World Services, the Catholic Relief Services, and other recognized groups. This authority would allow us to respond to needs in such high priority areas as the Caribbean Basin. Our initial estimates of such needs in these areas would be for slightly over 35,000 tons of dairy products.

Donations will be carefully managed to avoid any possible problems such as lactose intolerances and vitamin A deficiencies that may result from these donations. However, our experience with both of these potential problems in the Title II program will allow us to deal with them in any direct CCC donations. CCC authorities would be used to cover transportation costs of donated commodities to recipient countries.

This authority will be used to complement the P.L. 480 Title II donations program. The two, working in conjunction, can provide additional needed food to more recipients and may allow for a more balanced ration to meet nutritional needs, especially for children.

3. Special Task Force on Casein

The subject of casein imports and their impact on the domestic dairy price support program has been studied at length. On April 9, 1982, President Reagan published in the Federal Register his concurrence with the recent findings under Section 22 of the Agricultural Adjustment Act of the U.S. International Trade Commission (ITC) that imports are not materially interfering with the price support program. However, the question of continued foreign subsidies on casein production and exportation warrants additional study. Accordingly, the Secretary of Agriculture will appoint a special task force to determine which exporting countries are using subsidies in the production, processing or exportation of casein and caseinates. The task force will make recommendations to the Secretary of Agriculture by September 1,

1982, regarding actions, if any, which can be taken to counter any unfair trade practices involved.

4. Expansion of Commercial Exports

To help alleviate the budgetary costs associated with surplus stocks and to meet any unsatisfied demand for quality dairy products in world markets, the Department will begin immediately to implement a policy toward expansion of commercial exports of CCC surplus dairy commodities. In doing this, precautions will be taken to prevent serious disruption of world markets and to make sure we are respecting our obligations under the General Agreement on Tariffs and Trade (GATT). To the extent possible, exports will be made on a bid basis through private U.S. firms. Action on butter exports will not be taken until our obligations under the sales contract with New Zealand are completed.

III. DAIRY PRODUCT PROMOTION

Per capita consumption of dairy products has trended downward over the last 15 years. Per capita consumption of whole milk has decreased nearly 22 percent over this time period. More must be done to utilize a greater quantity of dairy products in our diets for a healthier America. While reducing the price support level will greatly help to expand milk consumption, other things must be done.

A. Increased Funding to Stimulate Dairy Product Acceptance

In contrast to whole milk, per capita consumption of fluid lowfat milk (buttermilk and skim) and cheese has nearly doubled. It appears that the major factors affecting decreased whole milk consumption relate to the price of milk relative to other beverage shifts in the country's age profile and, perhaps, public concern over saturated fat consumption. The Department intends to carefully analyze those factors

that have limited consumer acceptance of some dairy products (including the scientific basis for alleged nutritional problems). This research would then assist government and private sector groups in the development of an information campaign to increase consumer acceptance of dairy products. Research would be funded up to a maximum of \$1 million a year beginning with fiscal year 1983.

B. Alternative Dairy Product Formulation

Limited development of processed dairy products has probably contributed to the downward consumption trends of dairy products as experienced over the last few years. Changing socio-economic characteristics of the consuming public and the corresponding alterations in market demand have not been met with innovative new product lines. Working with universities, processors and food technologists, the Department proposes to support product development research that would lead to new processed dairy products for both domestic and international markets. Examples of the types of products that could be envisioned include canned cheese and butter sauce (which would extend shelf life and permit easier distribution), and alternative "soft drink" type beverages.

C. Increase Use of Nonfat Dry Milk in Baked Goods

For the week ending April 12, 1982, CCC inventories of nonfat dry milk (NFDM) were listed at 1 billion pounds and accumulating at the rate of 46 million pounds per week. The accumulations of surplus NFDM has resulted, at least in part, from the decreasing use of NFDM in baking. Historically, USDA pioneered the use of milk powder in bread and other leavened baked goods. Approximately 15 years ago, all bread made in the U.S. contained from 3 to 6 percent milk solids measured on flour content basis.

Today, 80 percent of the bakeries do not include dairy products in their doughs even though this increases the vitamins content as well as improving the taste of the baked goods. Using the most recent data available from the Department of Commerce's Industry Census, it has been estimated that if use of NFDM at the 3-percent flour level was reinstated by the bakery trade for pan bread, buns, and rolls, a new market for approximately 300 million pounds of NFDM per year would be established.

The Secretary will recommend that the Federal government purchase milk enriched bread for its own use. In addition, the Secretary has asked research officials in the Department to meet with representatives from the American Institute of Baking in order to discuss potential joint research projects to increase the use of NFDM in baked goods.